Public Service Commission of Wisconsin
Rebuttal Testimony of Christopher W Larson
Gas and Energy Division

Wisconsin Energy Corporation
Docket 9400-YO-100

February 19, 2015

Q. Please state your name.

A. My name is Christopher W. Larson.

Q. Did you also provide direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to rebuttal testimony of Wisconsin Energy Corporation (WEC) witnesses Allen Leverett and John Reed concerning bill credits, and Scott Lauber, regarding push-down accounting.

Q. What specific testimony of Mr. Leverett do you wish to respond to?

A. Mr. Leverett recommends that the Commission reject the bill credits proposed in my direct testimony and that of Commission witness Kevin O'Donnell:

> First, it is unnecessary because, as we have explained, the transaction will deliver significant customer benefits without the need for ad hoc proxies like issuing bill credits. Second, all four of these entities have just finished a rate case (05-UR-107) in which the Commission set rates that it found to be just and reasonable.[1]

Q. What response do you have?

A. It was not possible to incorporate a revenue requirement impact in docket 5-UR-107. To do so would have prejudged the outcome of the acquisition approval docket. In addition, the acquisition was announced on June 23, 2014, almost a month after the revenue

[1] Leverett rebuttal at 17.

requirement settlement was reached on May 29, 2014, and only four days before the prehearing conference that was held on June 27, 2014.

In addition, Mr. Leverett's statements conflict with statements made by WEC's attorney at the prehearing conference for docket 5-UR-107. WEC's attorney was very clear that any party could argue the impacts of the acquisition in a future proceeding:

> If the Commission approves Wisconsin Energy Corporation's acquisition of Integrys, and the transaction closes, WEPCo will not argue that any party is prevented, whether based on prior settlements or for any other reason, from addressing on a going-forward basis any dollar impacts in 2015 or 2016 that occur subsequent to the closing of the acquisition. WEPCo does reserve the right, and Wisconsin Gas if that's an issue, does reserve the right to contest any proposed adjustments based on any such supposed dollar impacts.[2]
>
> …
>
> We don't think that that's something that could meaningfully be addressed in this rate case just because we don't know if it's going to get approval, we don't know if it's going to close; and even after that happens, it's going to take a while to figure out what the financial consequences are.[3]

WEC is certainly free to argue the merits of rate credits, but the claim that the topic is off limits because of the Commission's recent rate case decision should be disregarded.

I believe that this docket is an appropriate and logical forum to address whether such credits are appropriate. Commission staff witness Mr. O'Donnell has testified that WEC has not demonstrated the certainty of ratepayer benefit of the acquisition. A condition requiring rate credits would almost guarantee such benefits.

Q. What specific testimony of Mr. Reed do you wish to respond to?

A. Mr. Reed states that "Staff appears to have assumed that the Transaction will result in savings on day one. This is simply not the case, nor is it a requirement in order to secure

---

[2] Prehearing conference transcript, docket 5-UR-107 (PSC REF#: 210436), at 6

[3] Ibid, at 11.

merger approval. It may take years to realize some savings. Therefore, I believe the bill credit and the limitation on the 2016 rate case are premature."[4]

Q. What response do you have?

A. Mr. Reed's claims that savings will not occur until many years down the road would appear to be inconsistent with WEC's failure to provide a year-by-year analysis of merger costs and savings.

I believe it is certainly within the realm of reasonable possibility that the acquisition will produce net savings before the end of 2016, and generate a windfall for WEC. Even if Mr. Reed's statements are based on WEC management's general integration ideas at this point, it should be obvious that things do not always go according to plan, and plans may change. For example, some employees, especially at Wisconsin Public Service Corporation (WPSC), may believe that their jobs will be cut after the acquisition, and have left or are planning to leave WPSC for employment elsewhere. These employee decisions will result in immediate savings, unless the employees are replaced. This may also result in management deciding to consolidate some departments sooner than they otherwise would have planned, rather than hiring replacements for a short period and incurring additional severance pay costs.

Further, the question of whether or not there are net synergy savings between now and the end of 2016 depends on which transaction costs, if any, are included in that calculation. The appropriate and relevant calculation from a ratepayer's point of view would include synergy savings and transition costs, but exclude transaction costs. Since

[4] Reed rebuttal at 16.

WEC has already committed to not recover transaction costs in rates, these costs are irrelevant to the analysis.

Q. Can you point to an example where a merger or acquisition was projected to achieve net savings in the first and second years?

A. Yes. The Duke Energy and Cinergy merger was projected to have net savings of $13 million in year one and $105 million in year two, calculated as follows:

Table 1: Duke Energy and Cinergy Merger Projected Net Savings

(In Millions of Dollars)[5]

	Year 1 ($ Millions)	Year 2 ($ Millions)
Gross Savings[6]	$163	$230
Less Transition Costs:		
Separation	68	32
Retention	13	13
Relocation	5	5
System Integration	40	67
Facilities Integration	5	5
Other Transition	19	3
Total Transition Costs	$150	$125
Net Savings	$13	$105

Assuming that the WEC/Integrys acquisition closes on August 1, 2015, there would be a 17-month period from then until the rates established in docket 5-UR-107 expire. While the similarities between the Duke/Cinergy merger and WEC's proposed acquisition of Integrys could certainly be debated, I present Table 1 merely as an example of one possible scenario, using the only year-by-year net savings analysis currently on the record in this case. Absent a condition to require bill credits, as proposed in my direct testimony, or defer synergy savings and transition costs, as proposed in direct testimony

[5] Source: Ex.-PSC-O'Donnell-4.
[6] Excluding fuel savings of $7 and $8 million in years one and two, respectively. Fuel costs were not included in this calculation because fuel is recovered in rates through the Wisconsin fuel rules.

of Commission staff witness Jodee Bartels, WEC may receive a windfall for these 17 months.

Q. What specific testimony of Mr. Lauber do you wish to respond to?

A. On page 4 of his rebuttal testimony, Mr. Lauber proposes a modification to my proposed condition regarding push-down accounting (proposed condition 10 in Ex.-WEC-Lauber-4).

Q. What response do you have?

A. I agree that my proposed condition should be modified to allow for the possibility that Generally Accepted Accounting Principles (GAAP) may change. I believe a different modification is preferable, however, to eliminate WEC's option to use push-down accounting for financial reporting absent such a change in GAAP. I believe that the following modified condition appropriately takes both Mr. Lauber's and my concerns into account:

> Push down accounting related to the Reorganization will only be used by the Wisconsin Operating Companies for financial reporting if required by Generally Accepted Accounting Principles (GAAP). Push down accounting related to the Reorganization will not be used by the Wisconsin Operating Companies for regulatory accounting or ratemaking purposes regardless of GAAP requirements.

Q. Do you have any concluding comments?

A. Yes. My silence on any comments should not be construed as agreement with any particular position taken by any witness.

Q. Does that conclude your rebuttal testimony?

A. Yes.

CWL:jlt:DL: 00954818